

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2013-451-WS

In Re:)
)
Application of CUC, Incorporated)
for Adjustment of Rates and Charges)
)
)
)
)

Pre-filed Testimony
of George B. Flegal, Jr.
on behalf of the
Spring Island Property Owners' Association

1 **Q.** Please state your name and address.

2 **A.** My name is George B. Flegal, Jr. and my home address is 28 Spring Island Drive, Okatie,
3 SC 29909 where I have lived for about 18 years.

4 **Q.** Are you presently employed?

5 **A.** No, I am retired.

6 **Q.** Would you please give your educational background?

7 **A.** I graduated from West Virginia University in January, 1951, with a BS degree in Civil
8 Engineering. I also accumulated 20 hours toward a Masters' degree in Engineering but
9 decided to expand instead of narrow my focus so I took courses in accounting, finance
10 and management along with numerous seminars pertaining to the water and wastewater
11 utility business.

12 **Q.** Would you please briefly describe your work background?

13 **A.** After graduation from college, I was employed for six months as a party chief of a
14 mining surveying crew. I was then called to active duty as a Second Lieutenant in the
15 Army Corps of Engineers for two years, one of which was spent in Korea with the 409th
16 Engineer Brigade during the Korean War.

17 From 1953-1961, I was employed as Engineer-Manager of the Morgantown Water
18 Commission in Morgantown, WV. This was a municipal system with approximately
19 8,000 customers.

20 I then worked for General Waterworks Corporation from the latter part of 1961 to March,
21 1990. General Waterworks was a utility holding company that owned and operated
22 water, wastewater and steam heat utilities in sixteen states serving about 300,000
23 customers. Its largest operations were located in New Rochelle, NY; Toms River, NJ;

1 suburban Wilmington, DE; suburban Jacksonville, FL; suburban Miami, FL; suburban
2 Harrisburg, PA; Pine Bluff, AR; and Boise, ID.

3 I was Assistant Division Manager and Division Engineer for the Delaware Division for
4 about eight years located in Wilmington, DE. I was promoted to the position of Chief
5 Engineer which I held for about four years and was located in the company's
6 headquarters in Philadelphia, PA. In 1972, I was transferred to the company's Western
7 Region office in Pine Bluff, AR where I served for five years as a Region VP and was
8 responsible for our companies in AR, MO, IL, IN, MN, ID, OR and CA. I was then
9 promoted to the position of Senior VP-Operations located in the company's headquarters
10 in Philadelphia, PA. I held this position for about twelve years until my retirement.

11 I have been a Registered Professional Engineer in the states of WV, PA, MD, AR, IL, IN,
12 ID, OR, CA and WV.

13 **Q.** During the course of your employment with General Waterworks did you have occasion
14 to testify in rate cases in the various jurisdictions you have described?

15 **A.** Yes.

16 **Q.** About what subjects did you testify in those cases?

17 **A.** Everything except cost of money.

18 **Q.** Are you a customer of CUC, Inc.?

19 **A.** Yes, I am a regular water customer and a sewer customer and have been such for
20 approximately 18 years.

21 **Q.** Have you reviewed the testimony and exhibits of CUC, Inc. which were submitted in this
22 matter?

23 **A.** Yes, I have.

1 **Q.** I would like to go through the exhibits filed with CUC's application and get your
2 comments and recommendations relative thereto. Please refer to Exhibit D, Explanation
3 of Adjustments, and proceed.

4 **A.** The first six adjustments pertain to the proposed elimination of all availability fees which
5 have been in effect forever. It seems as though the excuse for doing away with these fees
6 is because of some bad economic conditions which have possibly made it more difficult
7 to collect. This is the way the world is and if CUC thinks they are the only ones
8 experiencing such problems, they are very mistaken. To make their life easier, they are
9 proposing to let the active customers pay more to make up for any losses that might be
10 experienced. I can see no reason to penalize the existing customers by eliminating these
11 fees because many of them paid availability fees for years as lot owners before becoming
12 homeowners.

13 **Q.** What about adjustments 7, 8, and 9 on Exhibit D?

14 **A.** These three items are adjustments pertaining to payroll, 401-K and health insurance
15 which will be addressed in detail later in my testimony.

16 **Q.** Do you have any comments relative to the adjustment for purchased water?

17 **A.** Yes, this is an item that concerns me very much because it is my understanding that this
18 Commission allowed this so called pass through without any investigation as to the
19 financial situation with respect to CUC. In my opinion at least a mini rate filing should
20 have been required to demonstrate what impact it would have and if it might allow CUC
21 to exceed its allowed return. The public should certainly have had the opportunity to
22 participate in such a proceeding.

23 **Q.** Do you have any comments relative to item 11, postage rates?

1 A. It appears as though CUC is confused again because it is proposing to go to bi-monthly
2 billing which should reduce postage costs. In fact, in no place in their testimony or
3 exhibits does CUC address the financial consequences of changing from monthly to bi-
4 monthly billing. While on the subject of billing frequency, CUC is certainly going against
5 the trend of utilities trying to make their product more affordable by using monthly
6 billing and even offering budget billing to more evenly spread payments over the year to
7 prevent unusually high bills which may happen. My last bill from SCE&G was higher
8 than usual and in my bill they offered me a budget billing amount without my asking
9 which I would say is very typical, today.

10 So far as costs are concerned, I would think they would be minimal and as to time
11 savings, it should only take one person about three days to read all of the meters so that is
12 minimal, also.

13 **Q.** Item 13 relates to office rental. Do you want to comment on that?

14 A. Yes. I don't agree that CUC needs this expense.. If CUC has managed to live without this
15 office for thirty years, I find it hard to justify such a change this late in the game and
16 CUC offered no testimony as to its necessity nor the proposed cost. This expense should
17 be eliminated.

18 **Q.** What comments do you have on item 14?

19 A. I have no comment with respect to the deduction of gas expense but I do have great
20 objection to the addition of \$3,600 for car rental expense. It is my understanding that this
21 vehicle is for the use of the Secretary-Treasurer who is headquartered in Florence, SC.
22 There was no justification by any witness as to the necessity for this vehicle. There is no
23 statement as to the number of times the user travels to Callawassie but I would doubt that

1 it is more than once a month, to be generous. If this is true, it would much more
2 economical to use a rental car at \$35 per day. This rental expense should be removed.

3 **Q.** Let's now look at item 15, vehicle insurance.

4 **A.** If there is any increase in insurance cost due to the new proposed vehicle, that amount
5 should be deducted.

6 **Q.** Items 43 to 53 pertain to various fees the company charges. Do you have a
7 recommendation pertaining to these fees?

8 **A.** Yes. I have been exposed to the tariffs of many water and wastewater utilities, including
9 about 80 for which I was responsible for over twelve years, and have never seen such a
10 conglomeration of junk fees. In my view these fees are essentially double dipping
11 because CUC is recovering the appropriate labor cost for their employees through their
12 rates but if a customer asks for a service to be performed for him he has to pay for that
13 employee's time, again, plus a premium. There is absolutely no legitimate reason for
14 these fees and they should all be eliminated.

15 **Q.** Please refer to the Schedule of Rates in CUC's Exhibit A and offer your analysis and
16 comments.

17 **A.** I have two exhibits which show the comparison of present and proposed rates. Exhibit A
18 is in the form of a table; Exhibit B is a chart. Exhibit A shows that there will be a 71.4%
19 increase in the base rate which allows no water usage. There are many residents of
20 Callawassie and Spring Island who go to visit family for several months who will be
21 impacted by this huge increase. For those customers who use from 5,000 to 27,500
22 gallons bi-monthly, their increase will vary from 68.9% to 64.4%. If these rates are
23 intended in any manner to encourage water conservation, they certainly do not do so

1 because the cost decreases as water usage increases. The dollar amount of the increase is
2 shocking when you see the average residential customer's bi-monthly bill will go from
3 \$215.07 to \$361.37 for water plus irrigation and sewer. These increases are unbelievable
4 and very unreasonable. As we have pointed out in our testimony, this has all been brought
5 about by extremely poor judgment and decisions on the part of the management of CUC,
6 Inc. Exhibit B shows this same information in a more distinct form where current and
7 proposed rates are shown as separate lines.

8 **Q.** I now refer you to Exhibit C of CUC's application entitled "Income Statement January
9 through December 2013. Have you made any studies relative to the appropriateness of
10 this exhibit? If so, please explain.

11 **A.** I prepared two schedules pertaining to this exhibit. Exhibit C is the historic "Source and
12 Application of Funds" and Exhibit D is the historic "Salaries and Wages" for the period
13 2006 to 2013. These were prepared using the Annual Reports submitted to the PSC by
14 CUC, Inc.

15 **Q.** Would you please explain what you mean by "Source and Application of Funds" analysis
16 and why it is appropriate to use it in this instance?

17 **A.** In usual rate regulation, a utility has a rate base which is its investment in its facilities on
18 which it is entitled to earn a return and also recover its cost of debt, which a utility
19 normally has. In the instance of CUC, it does not have one cent invested in its facilities
20 and is not regulated on a "return on rate base" method. All of the CUC facilities were
21 originally constructed by the developer and contributed to CUC. In situations like this the
22 only method of evaluating the financial position of the utility is to study its cash flow.
23 That is done by first determining all of the revenues the utility collects. In this method,

1 depreciation is a revenue item because it is collected in the rates and is not paid to anyone
2 specifically, like purchased water, electricity, etc.

3 Under this approach to analyzing a utility's finances the utility's various sources of
4 revenues are referred to as the "source of funds." The expenses are also accumulated
5 from the various bills, payrolls, etc, and the difference between the two is the Operating
6 Income Before Income Taxes (OIBIT) which is available to the utility to pay income
7 taxes and to provide a cushion for unforeseen events. This cushion or "operating margin"
8 also provides a return for the owners of the utility.

9 **Q.** What did the Source and Application of Funds study show?

10 **A.** It showed that CUC had a positive OIBIT for all years from 2006 through the present
11 except 2012 and 2013.

12 **Q.** What did the Salary and Wages study show?

13 **A.** It showed total payroll increased by 60.6% from 2006 to 2013, which I felt was
14 extremely excessive so I expanded the study by obtaining the Consumer Price Index
15 (CPI) as published by the Bureau of Labor Statistics. I found that the CPI only increased
16 17.8% for that period.

17 **Q.** I know that you are familiar with the testimony of Mr. Parkinson wherein he suggests a
18 revamping of CUC's staffing to come more in line with a reasonable level. Would you
19 please offer any comments you may have on his approach?

20 **A.** I think that Mr. Parkinson's approach was a very reasonable one from a managerial point
21 of view which corrects errors in judgment that been made by CUC. While I approached
22 this problem in a different manner, we both came to essentially the same conclusion that
23 the increase in CUC's payroll and related expenses have certainly been way out of line

1 and should not be allowed for regulatory purposes.

2 **Q.** Would you please explain what the CPI is and its use?

3 **A.** The CPI is an index containing numerous items of everyday use to reflect the change in
4 the cost of living on a monthly basis. It is used extensively by Social Security, many
5 union agreements and many companies to determine periodic pay increases.
6 CUC's increases in Salaries and Wages far outstripped the CPI.

7 **Q.** What is your proposed solution to this situation?

8 **A.** So far as I am concerned, CUC can pay their personnel anything they want but the
9 extraordinary pay increases that CUC has implemented should not be passed on to its
10 customers. I therefore propose that a maximum increase of 25% be allowed in this
11 proceeding. This is about 50% over the increase in the CPI and should be ample
12 considering the current economic conditions.

13 This means that the total application of funds (operating expenses) would be reduced
14 from \$459,040 to \$357,353, or a reduction of \$101,667. Applying this payroll amount to
15 2013, results in a positive OIBIT of \$61,121 and eliminates entirely the need for a rate
16 increase.

17 **Q.** As a result of this adjustment are there any other adjustments that would necessarily have
18 to be made?

19 **A.** Yes, employee benefits and payroll taxes would be reduced by approximately \$86,466
20 which would further increase the OIBIT to \$147,587.

21 **Q.** Does this conclude your testimony?

22 **A.** Yes it does.

9/21/2014

Docket NO. 2013-451-WS

PDD

Comparison of Current and Proposed CUC Rates

EXHIBIT A

Testimony of George B. Flegal, Jr.

	Water - 5/8" x 34"				Sewer	
	Residential		Irrigation			
Average Use-Kgal	4,481		6,152		4,481	
Bi-Monthly Rates	Base	per 1000 gal	Base	per 1000 gal	Base	per 1000 gal
Current	\$35	\$3.76	\$35	\$3.76	35	\$3.36
Proposed	\$60	\$6.00	\$60	\$6.00	\$60	\$6.00

Bi-Monthly Usage Gallons	Residential & Irrigation Water			Water (Residential & Irrigation) & Sewer		
	Current Rate Bi-monthly \$	Proposed Rate Bi-monthly \$	Increase %	Current Rate Bi-monthly \$	Proposed Rate Bi-monthly \$	Increase %
0	70.00	120.00	71.4	105.00	180.00	71.4
5,000	88.80	150.00	68.9	130.88	222.64	70.1
7,500	98.20	165.00	68.0	143.82	243.96	69.6
10,633	109.98	183.80	67.1	160.04	270.68	69.1
10,000	107.60	180.00	67.3	156.76	265.29	69.2
12,500	117.00	195.00	66.7	169.70	286.61	68.9
15,000	126.40	210.00	66.1	182.64	307.93	68.6
17,500	135.80	225.00	65.7	195.58	329.25	68.3
20,000	145.20	240.00	65.3	208.52	350.57	68.1
21,266	149.96	247.60	65.1	215.07	361.37	68.0
22,500	154.60	255.00	64.9	221.46	371.89	67.9
25,000	164.00	270.00	64.6	234.40	393.21	67.8
27,500	173.40	285.00	64.4	247.34	414.53	67.6

Average Customer based on CUC's reported consumption of:

72,464,790 gallons of residential water by 753 customers

32,779,296 gallons of irrigation water by 444 customers

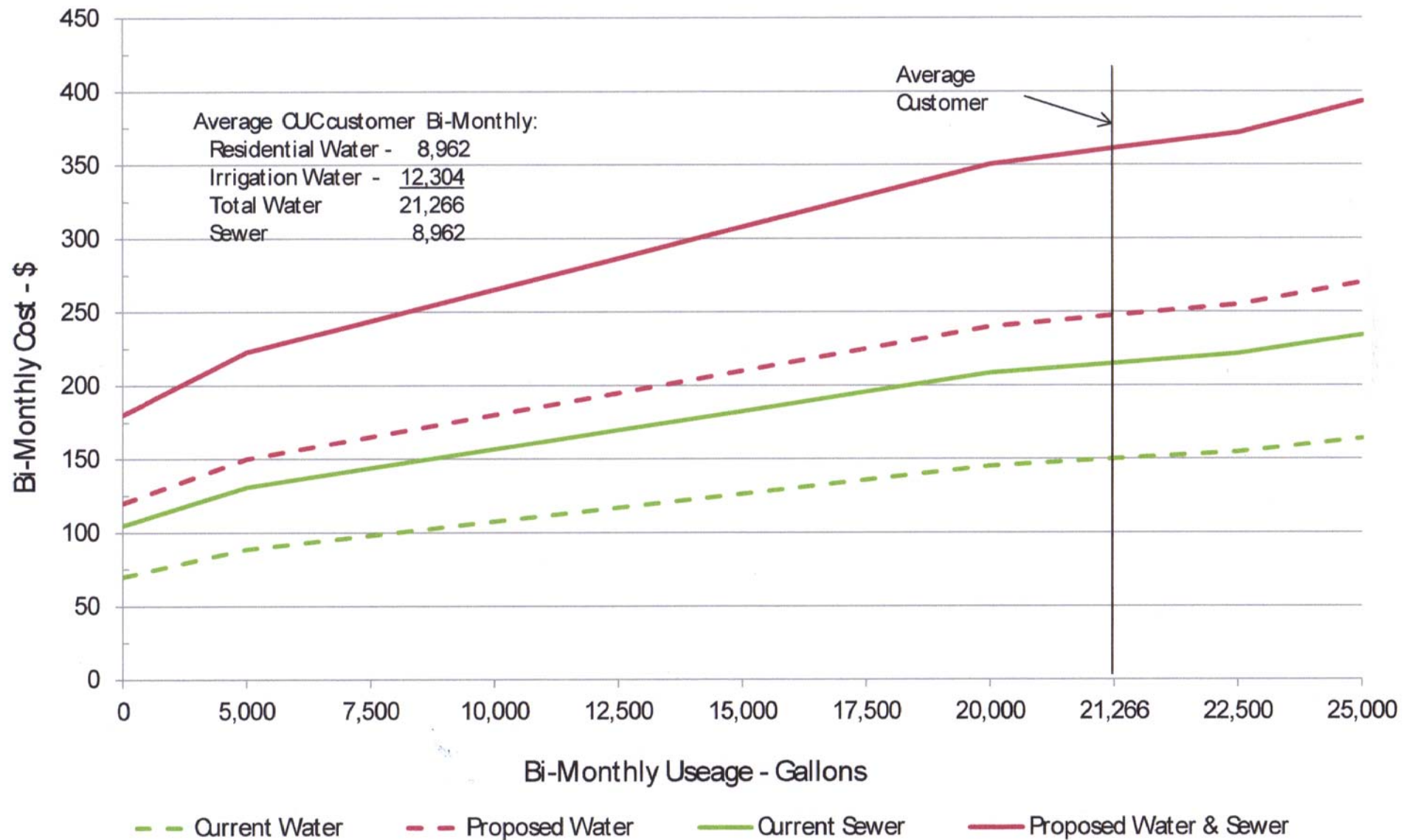
9/21/2014

Docket NO. 2013-451 WS

Comparison of Current and Proposed Bi-Monthly Rates

EXHIBIT B

Testimony of George B. Flegal, Jr.



DOCKET NO. 2013-451-WS

CUC, Inc. Source and Application of Funds per Annual PSC Reports

Source of Funds	2006	2007	2008	2009	2010	2011	2012	2013
Water								
Revenues								
Residential	565,386	583,272	521,819	503,976	559,173	587,006	579,716	518,714
Commercial			38,876	38,143	39,313	41,797	40,282	36,154
Other	31,020	28,611	28,280	35,540	28,825	29,450	14,127	26,540
Wastewater								
Availability				16,313	15,678	15,357	1,358	12,537
Residential	259,098	264,528	271,360	235,623	250,289	257,928	255,730	247,780
Commercial				19,657	18,478	19,718	20,507	17,747
Other	20,819	20,153	20,067	11,627	8,370	16,637	11,692	16,139
Depreciation Adjustment	21,379	30,403	22,067	26,719	34,065	21,828	13,358	24,299
TOTAL	897,702	926,967	902,469	887,598	954,191	989,721	936,770	899,910
Application of Funds								
Water								
Other Taxes & Reg Fee	22,673	24,723	23,891	19,681	18,423	18,445	19,932	20,227
Source of Supply	209,354	239,873	230,878	154,994	196,998	215,703	205,733	167,172
Trans. & Dist.				85,931	74,454	77,763	84,968	87,873
Customer Acc'tng				4,099	4,226	4,060	3,996	3,707
Admin. & General	175,467	186,884	170,536	155,038	163,833	167,857	194,413	191,724
Wastewater								
Other Taxes & Reg Fee	10,187	11,553	11,821	19,681	18,423	18,445	19,932	20,227
Collection	158,683	175,293	174,090	253,446	237,645	217,620	237,633	244,102
Pumping	30,262							
Treat. & Disposal	11,928	12,017	22,658			9,134	1,360	6,411
Admin. & General	189,672	208,999	206,851	157,127	168,916	178,917	195,817	197,297
Int. on LT Debt	451	2,047	1,161	2,076	1,424	1,696	724	1,716
TOTAL	808,677	861,389	841,886	852,073	884,342	909,640	964,508	940,456
OIBIT	89,025	65,578	60,583	35,525	69,849	80,081	-27,738	-40,546

Note: Depreciation included in Source of Funds

EXHIBIT D
 Testimony of George B. Flegal, Jr.

CUC, Inc, Historic Salaries and Wages
 Per CUC Annual Report To the PSC

Category	2006	2007	2008	2009	2010	2011	2012	2013	% Increase 2006-2013
Water									
Source of Supply	50,684	46,556	44,579	154,994	196,998	215,703	205,733	167,172	
A&G Officers, etc.	72,050	75,695	69,348	77,296	77,722	80,385	89,240	90,340	25.4%
Pension & Benefits	44,856	51,604	55,854	60,295	66,398	66,235	75,227	78,280	74.5%
Trans & Dist	0	0	0	46,142	47,925	55,959	60,274	62,847	
Wastewater									
Collection	93,198	104,381	105,021	103,025	102,267	104,710	110,979	111,188	
A&G Officers, etc.	69,966	72,545	69,348	77,296	77,722	80,385	89,240	90,340	29.1%
Pension & Benefits	47,361	54,488	58,758	63,595	69,461	68,101	77,171	80,224	69.4%
Operating EXpenses									
Salaries & Wages	285,898	299,177	288,296	412,611	454,709	481,183	495,192	459,040	60.6%
% of Oper. Expenses	38.4	38.0	35.8	50.8	53.7	55.2	53.4	51.1	
Pension & Benefits	92,217	106,092	114,612	123,890	135,859	134,336	152,398	158,504	71.9%
% of Oper. Expenses	12.4	13.5	14.2	15.3	16.1	15.4	16.4	17.6	